10 November 2004

Hong Kong Exchanges and Clearing Limited
香港交易及結算所有限公司
(Incorporated in Hong Kong with limited liability) (Stock Code: 388)

2004 Third Quarter Results

The Directors of Hong Kong Exchanges and Clearing Limited (HKEx) submit the unaudited consolidated results of HKEx and its subsidiaries (the Group) for the nine-month period ended 30 September 2004 as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT
(Financial figures are expressed in Hong Kong dollars)

		Unaudited Nine months ended 30 Sept		Unaudited Three months ended 30 Sept	
	Note	**2004 $'000**	2003 $'000	**2004 $'000**	2003 $'000
INCOME	2				
Trading fees and trading tariff		**494,610**	323,222	**147,438**	138,713
Stock Exchange listing fees		**271,314**	242,642	**88,344**	82,583
Clearing and settlement fees		**258,438**	167,592	**72,488**	75,280
Depository, custody and nominee services fees		**181,887**	143,156	**56,730**	48,563
Income from sale of information		**230,250**	192,038	**71,910**	65,785
Investment income	3	**170,292**	225,187	**89,921**	46,897
Other income	4	**129,789**	107,326	**42,887**	36,294
	2	**1,736,580**	1,401,163	**569,718**	494,115
OPERATING EXPENSES					
Staff costs and related expenses		**388,534**	390,433	**129,283**	123,572
Information technology and computer maintenance expenses		**166,643**	192,348	**56,626**	54,895
Premises expenses		**58,890**	63,570	**19,919**	20,737
Product marketing and promotion expenses		**7,853**	4,705	**2,157**	1,363
Legal and professional fees		**7,968**	24,385	**2,484**	3,394
Depreciation and amortisation		**139,488**	138,863	**46,968**	45,838
Payment to SFC under dual filing regime		**15,000**	10,000	**5,000**	5,000
Other operating expenses	5	**63,203**	109,963	**19,515**	18,777
	2	**847,579**	934,267	**281,952**	273,576
OPERATING PROFIT	2	**889,001**	466,896	**287,766**	220,539
SHARE OF PROFITS LESS LOSSES OF ASSOCIATED COMPANIES	2	**8,871**	4,647	**2,706**	1,384
PROFIT BEFORE TAXATION	2	**897,872**	471,543	**290,472**	221,923
TAXATION	2 / 6	**(142,204)**	(67,247)	**(39,797)**	(32,013)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS	2	**755,668**	404,296	**250,675**	189,910
Earnings per share	7	**$0.717**	$0.387	**$0.237**	$0.181

CONDENSED CONSOLIDATED BALANCE SHEET

(Financial figures are expressed in Hong Kong dollars)

	Note	**Unaudited at 30 Sept 2004 $'000**	Audited at 31 Dec 2003 $'000
NON-CURRENT ASSETS			
Fixed assets		**485,348**	585,627
Investments in associated companies		**32,581**	34,002
Clearing House Funds		**1,554,491**	1,551,330
Compensation Fund Reserve Account		**37,080**	36,859
Cash and Derivatives Market Development Fund		**412**	925
Non-trading securities		**-**	77,258
Time deposits with maturity over one year		**85,990**	393,456
Deferred tax assets		**983**	-
Other assets		**13,195**	4,814
		2,210,080	2,684,271
CURRENT ASSETS			
Margin funds on derivatives contracts		**9,665,847**	7,874,510
Accounts receivable, prepayments and deposits	8	**2,965,658**	4,644,680
Taxation recoverable		**961**	1,558
Trading securities		**2,608,483**	3,212,998
Bank balances and time deposits		**619,179**	1,384,247
		15,860,128	17,117,993
CURRENT LIABILITIES			
Bank loans		**-**	50,286
Margin deposits and securities received from Clearing Participants on derivatives contracts		**9,665,847**	7,874,510
Accounts payable, accruals and other liabilities	8	**3,199,220**	4,779,904
Participants' admission fees received		**3,250**	4,100
Deferred revenue		**111,790**	257,068
Taxation payable		**213,184**	57,370
Provisions		**23,692**	25,011
		13,216,983	13,048,249
NET CURRENT ASSETS		**2,643,145**	4,069,744
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,853,225**	6,754,015
NON-CURRENT LIABILITIES			
Participants' admission fees received		**84,050**	84,950
Participants' contributions to Clearing House Funds		**986,252**	984,045
Deferred tax liabilities		**43,923**	58,665
Provisions		**24,084**	23,092
		1,138,309	1,150,752
NET ASSETS		**3,714,916**	5,603,263
CAPITAL AND RESERVES			
Share capital		**1,056,593**	1,048,999
Share premium		**103,763**	54,338
Revaluation reserves		**18,247**	46,431
Designated reserves		**688,393**	689,657
Retained earnings	9	**1,847,920**	1,560,940
Proposed and declared dividends	9	**-**	2,202,898
SHAREHOLDERS' FUNDS		**3,714,916**	5,603,263

Notes

1. These unaudited condensed consolidated accounts should be read in conjunction with the 2003 annual accounts. The accounting policies and methods of computation used in the preparation of these accounts are consistent with those used in the annual accounts for the year ended 31 December 2003.

2. The Group's turnover comprises trading fees and trading tariff from securities and options traded on The Stock Exchange of Hong Kong Limited (the Stock Exchange) and derivatives contracts traded on Hong Kong Futures Exchange Limited (the Futures Exchange), Stock Exchange listing fees, clearing and settlement fees, depository, custody and nominee services fees, income from sale of information, investment income (including investment income net of interest expenses of Clearing House Funds) and other income, which are **disclosed as Income** in the condensed consolidated profit and loss account.

   The Group's income is derived solely from business activities in Hong Kong. An analysis of the Group's income and results for the period by business segments is as follows:

	Unaudited Nine months ended 30 Sept 2004				
	Cash Market $'000	**Derivatives Market $'000**	**Clearing Business $'000**	**Information Services $'000**	**Group $'000**
Income	**757,370**	**240,438**	**506,836**	**231,936**	**1,736,580**
Costs	**395,108**	**107,234**	**287,697**	**57,540**	**847,579**
Segment results	**362,262**	**133,204**	**219,139**	**174,396**	**889,001**
Share of profits less losses of associated companies	**(1)**	**-**	**8,872**	**-**	**8,871**
Segment profits before taxation	**362,261**	**133,204**	**228,011**	**174,396**	**897,872**
Taxation					**(142,204)**
Profit attributable to shareholders					**755,668**

	Unaudited Nine months ended 30 Sept 2003				
	Cash Market $'000	Derivatives Market $'000	Clearing Business $'000	Information Services $'000	Group $'000
Income	571,617	239,222	396,663	193,661	1,401,163
Costs	451,536	141,221	268,448	73,062	934,267
Segment results	120,081	98,001	128,215	120,599	466,896
Share of profits less losses of associated companies	10	-	4,637	-	4,647
Segment profits before taxation	120,091	98,001	132,852	120,599	471,543
Taxation					(67,247)
Profit attributable to shareholders					404,296

The **Cash Market** business mainly refers to the operations of the Stock Exchange, which covers all products traded on the cash market platforms, such as equities, debt securities, unit trusts, warrants and rights. Currently, the Group operates two cash market platforms, the Main Board and the Growth Enterprise Market (GEM). The major sources of income of the business are trading fees, trading tariff and listing fees. Direct costs of Listing Function (which were previously included under the Others Segment) are treated as segment costs under the Cash Market. Comparatives for 2003 have been reclassified retrospectively to conform to this practice.

The **Derivatives Market** business refers to the derivatives products traded on the Futures Exchange and stock options traded on the Stock Exchange, which includes the provision and maintenance of trading platforms for a range of derivatives products, such as equity and interest rate futures and options. Its income mainly comprises trading fees and net interest income on the margin funds received.

The **Clearing Business** refers to the operations of the three Clearing Houses, namely Hong Kong Securities Clearing Company Limited (HKSCC), The SEHK Options Clearing House Limited (SEOCH) and HKFE Clearing Corporation Limited (HKCC), which are responsible for clearing, settlement and custodian activities and the related risk management of the cash and derivatives markets operated by the Group. Its income is derived primarily from interest earned on the Clearing House Funds and fees from providing clearing, settlement, depository and nominee services.

The **Information Services** business is responsible for developing, promoting, and compiling historical and statistical data, and sales and business development of market data. Its income comprises primarily income from sale of Cash Market and Derivatives Market information. Since Information Services activities share similar business risks as the Cash Market and Derivatives Market, results of Information Services activities were previously grouped under the two business segments based on the nature of their business risks (e.g. income from sales of Cash Market information under the Cash Market). As Information Services activities generate a significant amount of income for the Group, from year ended 31 December 2003 onwards, their results are disclosed separately under Information Services. Accordingly, comparatives for 2003 have been reclassified to conform to the new disclosure.

In addition to the above, central income (mainly investment income of Corporate Funds) and central costs (mainly costs of the support functions that centrally provide services to all of the business segments) are allocated to the business segments and included in the segment income and costs. Accordingly, comparatives for 2003 have been reclassified to conform to this practice.

3. Investment income

	Unaudited Nine months ended 30 Sept 2004 $'000	Unaudited Nine months ended 30 Sept 2003 $'000	Unaudited Three months ended 30 Sept 2004 $'000	Unaudited Three months ended 30 Sept 2003 $'000
Interest income				
- bank deposits	**18,029**	49,655	**9,001**	16,539
- listed securities	**28,008**	31,281	**9,383**	9,348
- unlisted securities	**66,057**	80,806	**21,029**	24,240
	112,094	161,742	**39,413**	50,127
Interest expenses	**(314)**	(1,836)	**(195)**	(867)
Net interest income	**111,780**	159,906	**39,218**	49,260
Accommodation income on cash margin deposits in non-contract settlement currencies and securities deposited by Participants as alternatives to cash deposits of the margin funds	**4,361**	11,776	**572**	3,107
Non-interest investment income / (loss)				
Net realised and unrealised gain/(loss) on investments (note a)				
- listed trading and non-trading securities (note b)	**52,736**	30,295	**42,246**	7,065
- unlisted trading and non-trading securities	**(2,183)**	7,273	**3,631**	(6,274)
- exchange difference	**(2,723)**	11,542	**2,355**	(7,668)
	47,830	49,110	**48,232**	(6,877)
Dividend income				
- listed non-trading securities – Singapore Exchange Limited	**1,070**	1,049	**-**	-
- listed trading securities	**5,251**	3,346	**1,899**	1,407
	6,321	4,395	**1,899**	1,407
Total non-interest investment income/(loss)	**54,151**	53,505	**50,131**	(5,470)
Total investment income	**170,292**	225,187	**89,921**	46,897
Total investment income is derived from:				
Corporate Funds (note c)	**111,140**	146,594	**66,914**	22,282
Margin funds	**51,697**	63,449	**20,281**	20,361
Clearing House Funds	**7,455**	15,144	**2,726**	4,254
	170,292	225,187	**89,921**	46,897

(a) Includes net realised gain on disposal of non-trading securities of Corporate Funds, margin funds and Clearing House Funds of $24,942,000 (2003:$6,852,000) and $24,841,000 (2003: $266,000) for the nine months ended 30 September 2004 and three months ended 30 September 2004 respectively, of which $26,427,000 (2003: $3,763,000) and $26,326,000 (2003: $Nil) respectively have been previously recognised in investment revaluation reserve.

(b) Includes profit on sale of Singapore Exchange Limited of $24,841,000 in July 2004 (2003: $Nil).

(c) Investment income derived from Corporate Funds includes investment income of Compensation Fund Reserve Account of $412,000 (2003: $579,000) and Cash and Derivatives Market Development Fund (CDMD Fund) of $17,000 (2003: $50,000) for the nine months ended 30 September 2004, and investment income of Compensation Fund Reserve Account of $149,000 (2003: $188,000) and CDMD Fund of $5,000 (2003: $6,000) for the three months ended 30 September 2004.

4. Other income

	Unaudited Nine months ended 30 Sept		Unaudited Three months ended 30 Sept	
	2004	2003	**2004**	2003
	$'000	$'000	**$'000**	$'000
Network, terminal user, dataline and software sub-license fees	**86,731**	73,872	**29,924**	25,256
Participants' subscription and application fees	**25,778**	27,405	**8,548**	8,862
Share registration services fees	**1,383**	862	**354**	135
Brokerage on direct IPO applications	**11,288**	535	**2,906**	402
Miscellaneous income	**4,609**	4,652	**1,155**	1,639
	129,789	107,326	**42,887**	36,294

5. Other operating expenses

	Unaudited Nine months ended 30 Sept		Unaudited Three months ended 30 Sept	
	2004	2003	**2004**	2003
	$'000	$'000	**$'000**	$'000
Write-down of strategic investments (note a)	**-**	32,667	**-**	-
Retirement of redundant IT systems	**157**	9,943	**-**	97
Impairment of other property – revaluation deficit	**-**	4,411	**-**	-
Provision for/(reversal of provision for) doubtful debts	**(614)**	3,058	**(744)**	(516)
Insurance	**12,389**	9,002	**4,144**	3,018
Financial data subscription fees	**5,822**	6,636	**1,889**	2,132
Custodian and fund management fees	**5,858**	6,330	**1,895**	2,092
Bank charges	**5,603**	4,838	**1,644**	1,740
Repair and maintenance expenses	**5,103**	4,883	**1,714**	1,633
Other miscellaneous expenses	**28,885**	28,195	**8,973**	8,581
	63,203	109,963	**19,515**	18,777

(a) Write-down of strategic investments for the nine-month period ended 30 September 2003 includes a 100 per cent write-down ($32,303,000) of the Group's investment in BondsInAsia Limited under non-trading securities following a review of the Group's business strategy and operations.

6. Taxation in the condensed consolidated profit and loss account represents:

	Unaudited Nine months ended 30 Sept		**Unaudited Three months ended 30 Sept**	
	2004	2003	**2004**	2003
	$'000	$'000	**$'000**	$'000
Provision for Hong Kong Profits Tax (note a)	**156,447**	73,834	**46,912**	36,482
Underprovision in respect of prior years	**-**	1,170	**-**	1,170
	156,447	75,004	**46,912**	37,652
Deferred taxation (note b)	**(16,133)**	(8,836)	**(7,660)**	(5,965)
	140,314	66,168	**39,252**	31,687
Share of taxation of associated companies	**1,890**	1,079	**545**	326
	142,204	67,247	**39,797**	32,013

(a) Hong Kong Profits Tax has been provided for at 17.5 per cent (2003: 17.5 per cent) on the estimated assessable profit for the period.

(b) Deferred taxation for the nine months ended 30 September 2003 includes a one-off deferred tax charge of $6,040,000, which arose from recomputing outstanding deferred tax liabilities carried forward from 2002 using the higher tax rate of 17.5 per cent and the adoption of Hong Kong Statement of Standard Accounting Practice (SSAP) 12: Income Taxes in 2003.

7. The calculation of basic earnings per share for the nine months ended 30 September 2004 is based on the profit attributable to shareholders of $755,668,000 (2003: $404,296,000) and the weighted average of 1,054,436,372 shares (2003: 1,045,703,095) in issue during the period.

   The calculation of basic earnings per share for the three months ended 30 September 2004 is based on the profit attributable to shareholders of $250,675,000 (2003: $189,910,000) and the weighted average of 1,056,502,998 shares (2003: 1,047,821,389) in issue during the period.

   The employee share options outstanding did not have a material dilutive effect on the basic earnings per share for the nine-month and three-month periods ended 30 September 2004 and 30 September 2003.

8. The Group's accounts receivable, prepayments and deposits and accounts payable, accruals and other liabilities amounted to $2,965,658,000 (31 December 2003: $4,644,680,000) and $3,199,220,000 (31 December 2003: $4,779,904,000) respectively. These mainly represent the Group's Continuous Net Settlement (CNS) money obligations under the T+2 settlement cycle. The Group's CNS money obligations receivable represents 90 per cent (31 December 2003: 87 per cent) of the total accounts receivable, prepayments and deposits. CNS money obligations payable represents 83 per cent (31 December 2003: 84 per cent) of the total accounts payable, accruals and other liabilities. CNS money obligations mature within two days as they are due for settlement two days after the trade date. The majority of the remaining accounts receivable, prepayments, deposits, accounts payable, accruals and other liabilities will mature within three months.

9. Retained earnings

	Unaudited at 30 Sept 2004 $'000	Audited at 31 Dec 2003 $'000
At 1 Jan		
Retained earnings	**1,560,940**	3,221,321
Proposed and declared dividends	**2,202,898**	448,740
Profit for the period/year (note a)	**755,668**	691,765
Investment income net of expenses of Clearing House Funds for the period/year transferred to Clearing House Funds reserves	**(1,988)**	(8,430)
Investment income net of expenses of Compensation Fund Reserve Account for the period/year transferred to Compensation Fund Reserve Account reserve	**(412)**	(714)
Transfer from CDMD Fund reserve	**505**	-
Transfer from Development reserve	**3,159**	49,226
Dividends paid:		
2004/2003 interim dividend	**(454,283)**	(188,452)
2003 special and final dividends/2002 final dividend	**(2,202,898)**	(448,740)
Dividend on shares issued for employee share options exercised after declaration of 2003 special and final dividends/2002 final dividend	**(15,661)**	(647)
Dividend on shares issued for employee share options exercised after declaration of 2004/2003 interim dividend	**(8)**	(231)
At 30 Sept/31 Dec	**1,847,920**	3,763,838
Representing:		
Retained earnings	**1,847,920**	1,560,940
Proposed and declared dividends	**-**	2,202,898
At 30 Sept/31 Dec	**1,847,920**	3,763,838

(a) The Group's profit for the nine-month period/year includes a net deficit attributable to investment income net of expenses of the Clearing House Funds, Compensation Fund Reserve Account and CDMD Fund for an aggregate amount of $2,058,000 (year ended 31 December 2003: surplus of $6,938,000).

FINANCIAL HIGHLIGHTS

(Financial figures are expressed in Hong Kong dollars)

	Unaudited Nine months ended 30 Sept				Unaudited Three months ended 30 Sept			
	2004	2003		Change	**2004**	2003		Change
KEY MARKET STATISTICS								
Average daily turnover value on the Stock Exchange	**$15.3 billion**	$8.8 billion		74%	**$12.3 billion**	$12.0 billion		3%
Average daily number of derivatives contracts traded on the Futures Exchange	**57,078**	41,316		38%	**55,981**	45,541		23%
Average daily number of stock options contracts traded on the Stock Exchange	**22,569**	15,199		48%	**20,995**	16,313		29%
	$'000	$'000			**$'000**	$'000		
RESULTS								
Income	**1,736,580**	1,401,163		24%	**569,718**	494,115		15%
Operating expenses	**847,579**	934,267		(9%)	**281,952**	273,576		3%
Operating profit	**889,001**	466,896		90%	**287,766**	220,539		30%
Share of profits less losses of associated companies	**8,871**	4,647		91%	**2,706**	1,384		96%
Profit before taxation	**897,872**	471,543		90%	**290,472**	221,923		31%
Taxation	**(142,204)**	(67,247)		111%	**(39,797)**	(32,013)		24%
Profit attributable to shareholders	**755,668**	404,296		87%	**250,675**	189,910		32%
Shareholders' funds	**3,714,916**	5,603,263	Φ	(34%)	**3,714,916**	5,603,263	Φ	(34%)
Total assets *	**18,070,208**	19,802,264	Φ	(9%)	**18,070,208**	19,802,264	Φ	(9%)
Net assets per share # Ω	**$3.52**	$5.34	Φ	(34%)	**$3.52**	$5.34	Φ	(34%)
Earnings per share	**$0.717**	$0.387		85%	**$0.237**	$0.181		31%

* The Group's total assets include the margin funds received from Participants on futures and options contracts.

Φ Audited as at 31 December 2003.

Based on 1,056,592,846 shares issued and fully paid as at 30 September 2004 (31 December 2003: 1,048,998,846 shares).

Ω The drop in net assets per share is mainly attributable to the payment of 2003 special dividend of $1.68 per share, 2003 final dividend of $0.42 per share and 2004 interim dividend of $0.43 per share, totalling $2.53 per share.

BUSINESS REVIEW AND PROSPECTS

BUSINESS AND MARKET DEVELOPMENTS

(Financial figures are expressed in Hong Kong dollars)

Market Activity

Average daily turnover value on the Stock Exchange during the period under review was $12.3 billion (2004 first three quarters: $15.3 billion), compared with $12.0 billion in the third quarter of 2003. A total of nine equity issues were newly listed on the Main Board, including one by a company formerly listed on GEM, and five were listed on GEM (2004 first three quarters: 32 on the Main Board and 20 on GEM). In the third quarter of 2003, there were 15 equity issues newly listed on the Main Board, including one by a company formerly listed on GEM, and six on GEM. Equity capital formation through initial public offering (IPO) and post-IPO fund-raising totalled $9.2 billion on the Main Board and $943.6 million on GEM (2004 first three quarters: $219.5 billion on the Main Board and $4.9 billion on GEM), compared with a total of $17.8 billion on the Main Board and $2.0 billion on GEM in the third quarter of 2003.

The average daily number of futures and options contracts traded on the Futures Exchange and the Stock Exchange during the period under review was 76,976 (2004 first three quarters: 79,647), up from 61,854 in the third quarter of 2003. Total open interest at the end of September 2004 was 755,391 contracts, compared with 541,247 contracts at the end of September 2003.

Listing

Enhancement of Corporate Governance

The Listing Committee (comprised of members of the Main Board and GEM Listing Committees), at its September quarterly policy meeting, agreed the final form of the revised Code on Corporate Governance Practices and the disclosure requirements relating to the Report on Corporate Governance practices. The revised Code and related rule amendments have been approved by the Securities and Futures Commission (the SFC) and will be published in the middle of November.

Regulation of Sponsors and Independent Financial Advisers

On 19 October, HKEx and the SFC jointly published Consultation Conclusions on the Regulation of Sponsors and Independent Financial Advisers along with amendments to the Listing Rules (Main Board and GEM). The rule amendments will take effect on 1 January 2005 and transitional arrangements will be put in place where considered necessary. The amendments will implement many of the consultation conclusions; most significantly, they will codify HKEx's current expectations concerning the role of sponsors, including the due diligence sponsors would typically perform in relation to initial listing applications.

Consultation on the Proposed Reduction of Minimum Trading Spreads in the Securities Market

On 6 August, HKEx published its Consultation Paper on the Reduction of Minimum Spreads to invite market views and comments. In developing the proposals, HKEx considered the characteristics of Hong Kong's securities market and the current market arrangements. The suggested reduction of the minimum spreads is aimed at increasing the competitiveness of our market, improving market efficiency and enhancing market liquidity. The proposals would also make the spreads more uniform.

HKEx believes that changes in minimum spreads should be implemented cautiously. Therefore, a phased approach has been proposed. Under Phase 1 of the proposal, minimum spreads for shares priced above $30 would be reduced. Phase 2, which would depend on the successful implementation of Phase 1, comprises two options for further changes. In addition, the consultation paper invited alternative proposals.

The consultation period ended on 6 October. HKEx has received 462 submissions and is now reviewing the responses.

Products and Services

Enhanced CCASS Investor Account Service

HKEx introduced enhanced features of the Investor Account Service in the Central Clearing and Settlement System (CCASS) on 23 August along with promotion programmes. The Investor Account Service provides investors with an additional choice for custody of their stockholdings with the benefits of electronic book-entry settlement. The service has been upgraded periodically since its introduction in 1998.

The enhancements, which are in response to market demand, include an extended online window for CCASS Phone System and Internet users, access to the CCASS Internet System via ID and password, alert message service (via SMS, or short message service), streamlined stock transfer instructions, upgraded voting functions and electronic statement service. The changes have made the service more convenient, easier to use and easier to support.

The promotion programmes were designed to increase public awareness of the Investor Account Service. They include free trials of selected services, an incentive scheme for new and existing account holders and lucky draws. The promotion period ends on 31 December.

Callable Bull/Bear Contracts

HKEx is considering introducing Callable Bull/Bear Contracts (CBBCs) as a new category of structured products, and it has been working to develop a suitable market infrastructure. CBBCs track the performance of an underlying asset and are somewhat similar to margin financing. They can be issued as either Bull or Bear instruments, allowing investors to take bullish or bearish positions on the underlying asset – a single stock, index, or commodity – with a small capital outlay.

HKEx is discussing with the SFC on the possible introduction of CBBCs. In addition, it has had discussions on CBBCs with issuers, overseas exchanges that offer the product and market practitioners in Hong Kong, including issuers, brokers and industry associations.

MOU with China Securities Depository and Clearing Corporation

HKSCC, a wholly-owned subsidiary of HKEx, and the China Securities Depository and Clearing Corporation signed a Memorandum of Understanding (MOU) in Beijing on 17 September. The MOU covers the exchange of information and personnel, and further strengthens HKEx's ties with its counterparts on the Mainland.

Conferences on the Mainland

HKEx and the Research Centre of the State-owned Assets Supervision and Administration Commission of the State Council co-organised a conference in Shanghai on 2 September to promote the listing of state-owned enterprises on HKEx's markets and the role of Hong Kong as the premier international capital formation centre for Mainland enterprises. Executives from about 200 Mainland enterprises, including many state-owned enterprises, attended the conference. The other participants included representatives from the Hong Kong offices of international accounting firms, law firms and investment banks.

HKEx also participated in Hong Kong Financial Services Expo 2004 in Shanghai, a three-day event in the second half of September organised by the Hong Kong Trade Development Council.

Stock Exchange Trading Hall

On 5 November, the Board approved in principle a plan to retain the Trading Hall of the Stock Exchange and make it a multi-purpose facility. Implementation of the plan is subject to successful renewal of the lease, which will expire in October next year.

Under the plan, HKEx will renovate the Trading Hall to create space for new facilities. These will include areas for listing ceremonies, visitors, public exhibitions and broadcasting booths for the news media. In addition, there will be multi-function rooms and facilities for annual general meetings, investor education and market events.

HKEx proposes charging Exchange Participants for occupying and using the upgraded trading booths on a user-pays basis and plans to consult the market on the proposal. The proposal, including any new fee charges, will require the approval of the SFC.

Views on Estate Duty and Taxing of Securities Dealings

HKEx submitted a response to the Government's consultation paper on estate duty review and one on exempting securities dealings from profits tax on 19 September and 28 October respectively. HKEx supports the abolition of estate duty. It also supports the Government's initiative to exempt offshore funds from profits tax and recommends expanding the exemption to all dealings in Hong Kong-listed securities.

Finance

The Finance Department supervises the investment of funds, which can be divided into three main categories: Corporate Funds (comprising mainly share capital and retained earnings of the Group), Clearing House Funds and margin funds received (which exclude contributions receivable from Participants and securities deposited by Participants as alternatives to cash deposits of margin funds).

An Investment Advisory Committee, comprised of non-executive Directors of HKEx and an external member from the financial community, advises the Board on portfolio management and monitors the risk and performance of HKEx's investments. A Treasury team in the Finance Department is dedicated to the day-to-day management and investment of the funds. Three external fund managers have also been appointed to manage part of the Corporate Funds since July 2001.

Investment and fund management is governed by investment policies and risk management parameters approved by the Board. Investment restrictions and guidelines form an integral part of risk control. Fund-specific restrictions and guidelines are set according to the investment objectives of each fund. In addition, specific limits are set for each fund to control risk (e.g. permissible asset type, asset allocation, liquidity, credit, counterparty concentration, maturity, foreign exchange, interest rate and market risks) of the investments.

The investment objective of the Corporate Funds is the provision of liquidity for funding ongoing operations and long-term capital preservation. Accordingly, the funds can be invested in cash, money market instruments, bonds, collective investment schemes and equities. Only the external fund managers are permitted, subject to compliance with guidelines on conflict of interest and to limits forming part of the investment policies, to invest in equities, which include convertible bonds. For Clearing House Funds and margin funds, the investment objective of which is to satisfy liquidity requirements and safeguard the financial assets of the funds, their portfolios only consist of cash, money market instruments and bonds.

For the nine months ended 30 September 2004, the average amount of funds available for investment increased by 40 per cent or $4.00 billion to $13.91 billion (2003: $9.91 billion), primarily due to a rise in margin funds received from Participants as a result of increased open interest in futures and options contracts, which was partly offset by the reduction in Corporate Funds following the $2.22 billion payment of 2003 special and final dividends in April 2004. Comparing with 30 June 2004, the overall fund size as of 30 September 2004 increased by 8 per cent or $1.02 billion to $13.54 billion (30 June 2004: $12.52 billion).

As at 30 September 2004 and 30 June 2004, details of the asset allocation were as follows:

	Fund size $ billion		**Bonds**		**Cash or bank deposits**		**Global equities**	
	Sept	Jun	Sept	Jun	Sept	Jun	Sept	Jun
Corporate Funds	3.36	3.46	72%	68%	22%	25%	6%	7%
Margin funds	8.74	7.96	37%	41%	63%	59%	0%	0%
Clearing House Funds	1.44	1.10	9%	11%	91%	89%	0%	0%
Total	13.54	12.52	43%	46%	56%	52%	1%	2%

Investments of the three funds are kept sufficiently liquid to meet HKEx's operating needs and possible liquidity requirements of the Clearing House Funds and margin funds. Excluding equities held under the Corporate Funds ($0.21 billion as at 30 September 2004 and $0.24 billion as at 30 June 2004), which do not have a maturity date, the maturity profile of the remaining $13.33 billion and $12.28 billion of investments as at 30 September 2004 and 30 June 2004 was as follows:

	Fund size $ billion		Overnight		>Overnight to 1 month		>1 month to 1 year		>1 year to 3 years		> 3 years	
	Sept	Jun	Sept	Jun	Sept	Jun	Sept	Jun	Sept	Jun	Sept	Jun
Corporate Funds	3.15	3.22	16%	17%	8%	11%	23%	22%	35%	36%	18%	14%
Margin funds	8.74	7.96	38%	45%	21%	8%	14%	12%	27%	35%	0%	0%
Clearing House Funds	1.44	1.10	78%	76%	3%	0%	8%	10%	11%	14%	0%	0%
Total	13.33	12.28	37%	40%	16%	9%	16%	14%	27%	33%	4%	4%

Credit exposure was well diversified. As at 30 September 2004, all bonds held were of investment grade and had a weighted average credit rating of Aa2 (30 June 2004: Aa2) and a weighted average maturity of 1.5 years (30 June 2004: 1.6 years). Deposits were placed only with the note-issuing banks in Hong Kong and licensed banks and restricted licence banks with a minimum credit rating of A3 by Moody's or equivalent approved by the Board from time to time.

Risk management techniques, such as Value-at-Risk (VaR) and portfolio stress testing, are used to identify, measure, monitor and control market risks. VaR measures the expected maximum loss over a given time interval (a holding period of 10 trading days is used by HKEx) at a given confidence level (95 per cent confidence interval is adopted by HKEx) based on historical data (one year is used by HKEx). The overall risk, as measured by the VaR methodology, during the second quarter and third quarter was as follows:

	Average VaR $ million		Maximum VaR $ million		Minimum VaR $ million	
	Jul-Sept	**Apr-Jun**	**Jul-Sept**	**Apr-Jun**	**Jul-Sept**	**Apr-Jun**
Corporate Funds	15.77	16.26	17.25	17.56	14.65	14.02
Margin funds	15.90	16.85	16.84	17.44	15.03	15.67
Clearing House Funds	1.06	1.15	1.14	1.24	0.99	1.01

For details of HKEx’s investment income, please refer to the Overall Performance section.

OVERALL PERFORMANCE

(Financial figures are expressed in Hong Kong dollars)

The Group recorded a profit attributable to shareholders of $756 million for the nine months ended 30 September 2004 (2004 first quarter: $314 million; 2004 second quarter: $191 million; 2004 third quarter: $251 million), compared with $404 million for the same period in 2003 (2003 first quarter: $89 million; 2003 second quarter: $125 million; 2003 third quarter: $190 million).

Income, in particular trading fees and trading tariff, and clearing and settlement fees, increased due to a higher level of activity in the cash and derivatives markets during the nine-month period ended 30 September 2004 compared with the same period in 2003. This was, however, partly offset by a drop in investment income mainly due to reduced interest income on account of lower interest rates during the current period and the distribution of the 2003 special and final dividends of $2.2 billion in the second quarter of 2004, and the decline in bond and equity prices in the second quarter of 2004 as the markets reacted negatively to concerns over interest rate increases and macro-economic measures by Mainland authorities to slow credit growth in certain sectors.

Total operating expenses for the first nine months declined by $86 million or 9 per cent to $848 million (2003: $934 million), which was mainly due to the non-recurring one-off costs incurred in the second quarter of 2003 ($52 million less tax deduction of $1 million), and savings in information technology and computer maintenance expenses and legal and professional fees during the current period. Taxation in 2003 also included a one-off increase in deferred tax charge of $6 million following the implementation of the new SSAP 12: Income Taxes and the increase in Profits Tax rate.

Income

Total income (including share of profits less losses of associated companies) for the period increased by $340 million or 24 per cent to $1,746 million (2003: $1,406 million).

Activity on the cash market experienced considerable volatility during the nine-month period under review. The improved market sentiment in the second half of 2003 gained more momentum in the first quarter of 2004, but macro-economic measures introduced to adjust the Mainland economy, high oil prices and the interest rate rise in the United States caused trading to edge down in the second quarter. Trading activities started to pick up again in August 2004 as the property market resumed its rebound. The average daily turnover on the Stock Exchange for the nine-month period rose by 74 per cent to $15.3 billion compared with $8.8 billion in the corresponding period last year. Average daily number of stock options contracts traded on the Stock Exchange during the first nine months of 2004 increased by 48 per cent compared to the same period of 2003. Moreover, the average daily number of derivatives contracts traded on the Futures Exchange increased by 38 per cent, which was mainly attributable to the increase in the trading of Hang Seng Index Futures contracts and the launch of H-Shares Index Futures in December 2003. Consequently, trading fees rose by $172 million or 53 per cent to $495 million (2003: $323 million).

Listing fee income increased by $28 million or 12 per cent to $271 million (2003: $243 million), primarily due to an increase in initial listing fees as the number of newly listed derivative warrants rose to 869 in 2004 (2003: 402), and a rise in annual listing fees on account of a higher number of listed securities. There were 32 (2003: 31) and 20 (2003: 18) new listings on the Main Board and GEM respectively during the nine-month period ended 30 September 2004. As at 30 September 2004, nine Main Board and three GEM (31 December 2003: three Main Board and five GEM) IPO applications had obtained approval in principle from the Listing Committee for listing, and 43 Main Board and 22 GEM applications were being processed (31 December 2003: 19 Main Board and 32 GEM). As at 30 September 2004, there were 877 companies listed on the Main Board and 203 on GEM (31 December 2003: 852 and 185 respectively).

In line with the growth in cash market activity, clearing and settlement fee income increased by 54 per cent or $91 million to $259 million in the first nine months (2003: $168 million), and depository, custody and nominee services fees moved up by 27 per cent or $39 million to $182 million during the nine-month period ended 30 September 2004 (2003: $143 million).

Income from sale of information for the first nine months rose by $38 million or 20 per cent to $230 million (2003: $192 million), as demand for information increased in tandem with the activities of the cash and derivatives markets.

Investment income comprises income from investments supervised by the Finance Department, investment in Singapore Exchange Limited and accommodation income from Participants. Total investment income for the period fell by $55 million or 24 per cent to $170 million (2003: $225 million), predominantly due to lower interest rates during the period.

For investments supervised by the Finance Department, income for the period amounted to $140 million, 34 per cent or $72 million lower than the $212 million for the same period in 2003. The decrease was attributable to the reduced gains of $26 million or 53 per cent from $49 million in 2003 to $23 million in 2004 due to market movements. Also, net interest income was lower at $112 million (2003: $160 million) due to lower interest rates and reduced Corporate Funds available for investment following the $2.2 billion payment of 2003 special and final dividends in April 2004.

During the period under review, the average 6-month Hong Kong Exchange Fund Bill rate dropped from 1.04 per cent in 2003 to 0.48 per cent in 2004, and the average 90-day US Treasury Bill rate rose from 1.04 per cent to 1.16 per cent.

For the nine months ended 30 September 2004, on an annualised basis, the Finance Department achieved a positive return on investments of 1.35 per cent (2003: 2.86 per cent). The Corporate Funds returned 2.74 per cent (2003: 4.17 per cent), the margin funds 0.76 per cent (2003: 1.65 per cent), and the Clearing House Funds 0.72 per cent (2003: 1.88 per cent). Therefore, the overall portfolio recorded a spread of 87 basis points (2003: 182 basis points), with Corporate Funds registering a spread of 226 basis points (2003: 313 basis points), the margin funds 28 basis points (2003: 61 basis points) and the Clearing House Funds 24 basis points (2003: 84 basis points) above the 6-month Hong Kong Exchange Fund Bill yield.

The average amount of funds available for investment during the period increased by 40 per cent or $4.0 billion to $13.9 billion (2003: $9.9 billion), primarily due to a rise in margin funds received from Participants as a result of increased open interest in futures and options contracts, which was partly offset by the reduction in Corporate Funds following the $2.2 billion payment of 2003 special and final dividends in April 2004. As at 30 September 2004, 56 per cent (31 December 2003: 59 per cent) of the funds were invested in cash and bank deposits, 43 per cent (31 December 2003: 39 per cent) in high-grade bonds with an average credit rating of Aa2, and 1 per cent (31 December 2003: 2 per cent) in global equities. For more details of the investment portfolio, please refer to the Finance section under Business and Market Developments.

Accommodation income (i.e. retention interest charged on cash margin deposits in non-contract settlement currencies and securities deposited by Participants as alternatives to cash deposits of the margin funds) dropped by 63 per cent or $8 million to $4 million (2003: $12 million) as cash margin deposits in Japanese Yen and US Treasury bills deposited dropped significantly during the period. Income from the investment in Singapore Exchange Limited for the first nine months increased by $25 million to $26 million (2003: $1 million) mainly due to the profit arising from the disposal of the investment in July 2004 of approximately $24.8 million.

Other income rose by $23 million or 21 per cent to $130 million (2003: $107 million), mainly due to a $11 million increase in brokerage on direct IPO applications, and an increase in terminal, dataline and network usage fees and software sub-license fees of $13 million.

Share of profits less losses of associated companies increased by $4 million or 91 per cent to $9 million (2003: $5 million), due to the improved performance of one of the associated companies, Computershare Hong Kong Investor Services Limited, during the period under review.

Operating Expenses

Total operating expenses for the period under review declined by 9 per cent or $86 million to $848 million (2003: $934 million).

Staff costs and related expenses remained stable at $389 million (2003: $390 million). Savings of one-off severance costs ($9 million incurred on the reorganisation and streamlining of the Group's operations in 2003) and lower salary costs as a result of reduced headcount in 2004 were offset by an accrual for performance bonus on account of the Group’s improved performance in 2004.

Information technology and computer maintenance expenses for the first nine months dropped by $25 million or 13 per cent to $167 million in 2004 (2003:$192 million), mainly attributable to lower hardware rental. During the period under review, capital expenditures on computer systems, hardware and software amounted to $16 million (2003: $21 million).

Premises expenses fell by 7 per cent or $5 million to $59 million (2003: $64 million) as lower rental was negotiated upon the renewal of certain leases and savings achieved from reduced floor area leased during the first nine months of 2004.

Product marketing and promotion expenses rose by $3 million or 67 per cent to $8 million (2003: $5 million). The increase was mainly attributable to higher expenditure in corporate marketing and advertising campaigns, and incentive programmes for the promotion of the H-Shares Index Futures and Options and services for Investor Participants.

Legal and professional fees for the period decreased by $16 million or 67 per cent to $8 million (2003: $24 million). The fall was mainly attributable to professional fees incurred for several one-off consulting projects in the first nine months of 2003.

Depreciation and amortisation costs remained fairly stable at $139 million (2003: $139 million). The increase in depreciation attributable to the rollout of DCASS, the Derivatives Clearing and Settlement System, in April 2004 was offset by the decrease arising from the revision to the estimated useful life of the hardware of trading and clearing systems from three years to five years to better reflect the useful life of the equipment.

Payment to the SFC was $15 million for the first nine months of 2004 (2003: $10 million) under the dual filing regime, which started from 1 April 2003.

Other operating expenses dropped by $47 million or 43 per cent to $63 million (2003: $110 million), mainly attributable to certain one-off costs incurred in 2003 ($32 million for the write-down of the Group's investment in BondsInAsia Limited and $10 million of retirement of redundant IT systems following the review of its business strategy and operations in May 2003), as well as a devaluation deficit of $4 million of one of the Group’s properties charged to the profit and loss account in 2003. Provision for doubtful debts fell by $4 million compared with 2003.

Taxation

The Group's tax charge rose by $75 million or 111 per cent to $142 million (2003: $67 million), principally due to a rise in tax charge resulting from an increase in profit before taxation in 2004.

Comparison of 2004 Third Quarter Performance with 2004 Second Quarter Results

Profit attributable to shareholders was $251 million for the third quarter of 2004, $60 million or 31 per cent higher than the $191 million registered in the second quarter of 2004. The improvement in profit was mainly attributable to a $51 million or 10 per cent increase in income.

The decline in activity in the cash market continued in the third quarter and bottomed out in August. The average daily turnover on the Stock Exchange for the third quarter fell by 11 per cent to $12.3 billion compared with $13.8 billion in the second quarter. This has led to a decrease in trading fees and trading tariff of $7 million, clearing and settlement fees of $7 million and income from sale of information of $6 million compared with the second quarter. In addition, depository, custody and nominee services fees fell by $31 million mainly due to a decrease in dividend collection and scrip fee income due to seasonal factors.

On the other hand, investment income recovered from a loss of $13 million in the second quarter to a profit of $90 million in the third quarter, mainly attributable to the recovery of the bond and equity markets in the third quarter after the significant drop in April 2004, and the disposal of the investment in Singapore Exchange Limited in July 2004 at a profit over cost of approximately $24.8 million.

Total operating expenses has remained fairly stable at $282 million during the two quarters under review.

Tax charge dropped by $8 million to $40 million in the third quarter (2004 second quarter: $48 million) despite an increase in profit before taxation. The $51 million of higher profit before taxation in the third quarter only brought in an additional $2 million of tax charge as a large part of the increase in profit was non-taxable (mainly investment income, of which $24.8 million relates to the sale of investment in Singapore Exchange Limited). This was, however, more than offset by $10 million of lower tax charge in the third quarter due to higher utilisation of tax losses, whereas in the second quarter, certain entities of the Group were making tax losses due to the fall in the bond and equity markets.

Working Capital

Working capital fell by $1,427 million or 35 per cent to $2,643 million as at 30 September 2004 (31 December 2003: $4,070 million). The decline was primarily due to the payment of the 2003 special and final dividends of $2,219 million and the 2004 interim dividend of $454 million, which was partly offset by $756 million of profit generated during the nine-month period, the proceeds on sale of investment in Singapore Exchange Limited of $76 million and $307 million of time deposits brought forward from 31 December 2003 with maturity over one year that became current assets during the period due to the lapse of time.

Significant Investments Held and Material Acquisitions and Disposals

The Group disposed of its entire investment in Singapore Exchange Limited included under non-trading securities in July 2004 at a profit over cost of approximately $24.8 million.

The Group has resolved to liquidate its investment in ADP Wilco Processing Services Limited ("AWPS", book value as at 30 September 2004: $1.3 million, representing the Group's share of AWPS's net assets, which comprise predominantly cash and bank balances). The liquidation proceeds are expected to approximate the investment book value. Both shareholders of AWPS agree to the liquidation.

Exposure to Fluctuations in Exchange Rates and Related Hedges

When seeking to optimise returns on its funds available for investment, the Group may invest in non-HKD securities from time to time. During the period, the Singapore dollar credit facility (31 December 2003: S$11 million or HK$50 million) used to hedge the currency exposure of the Group's investment in shares of Singapore Exchange Limited was fully repaid. Thereafter, only forward foreign exchange contracts are used to hedge the currency exposure of the Group's non-HKD investments to mitigate risks arising from fluctuations in exchange rates. As at 30 September 2004, aggregate net open foreign currency positions amounted to HK$2,013 million, of which HK$208 million were non-USD exposures (31 December 2003: HK$1,663 million, of which HK$204 million were non-USD exposures). The Group's foreign currency liabilities, in the form of margin deposits or collateral received, are hedged by investments in the same currencies.

There were no other significant changes in the financial position or from the information disclosed under Management Discussion and Analysis in the annual report for the year ended 31 December 2003.

It is the Group's plan to declare dividend only at the half-year and year-end. Therefore, no dividend will be proposed for the third quarter ended 30 September 2004 (third quarter of 2003: $Nil).

Due to fluctuations in market conditions and changes in operating environment, certain categories of income and operating expenses may vary from quarter to quarter. Therefore, quarterly results should not be extrapolated to project the full-year performance of the Group.

PROSPECTS

As a substantial part of HKEx's income is derived from trading fees and trading tariff, clearing and settlement fees, listing fees and interest income, the performance of the Group is heavily influenced by external factors including, in particular, market sentiment, the level of activity on the Stock Exchange and the Futures Exchange, and movement in interest rates. Although activity on the cash and derivatives markets has picked up again after the sluggish performance in May through August, market sentiment may be adversely affected by high oil prices, slower than expected economic recovery in the US, and any additional macro-economic measures adopted by Mainland authorities to further adjust their economy.

HKEx will continue its efforts to improve the quality of its markets and attract more high quality companies to list in Hong Kong, with particular focus on companies in Mainland China. It will also continue to exercise stringent cost control and target its resources at meeting market needs.

CORPORATE GOVERNANCE

HKEx is committed to building and maintaining high standards of corporate governance. None of the Directors of HKEx is aware of information that would reasonably indicate that HKEx is not, or was not for any part of the nine months ended 30 September 2004, in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules.

Members of the Board are independent non-executive Directors with the exception of the Chief Executive who is an ex-officio Board member and the only executive Director of HKEx. Three of the independent non-executive Directors are qualified accountants with substantial experience in financial matters and two of them are members of the Audit Committee.

The Audit Committee has reviewed the Group's unaudited condensed consolidated statements for the nine months ended 30 September 2004 in conjunction with HKEx's external auditors.

Management has appointed the external auditors to carry out certain agreed-upon procedures in accordance with Statement of Auditing Standards 710 "Engagements to perform agreed-upon procedures regarding financial information" issued by the Hong Kong Institute of Certified Public Accountants on the unaudited condensed consolidated statements for the nine months ended 30 September 2004.

COMPLIANCE WITH THE MODEL CODE

HKEx has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (Model Code) as set out in Appendix 10 to the Listing Rules. All Directors have confirmed, following specific enquiry by HKEx, that they fully complied with the required standard as set out in the Model Code throughout the review period.

PURCHASE, SALE OR REDEMPTION OF HKEx'S LISTED SECURITIES

During the nine months ended 30 September 2004, HKEx had not redeemed, and neither HKEx nor any of its subsidiaries had purchased or sold any of HKEx's listed securities.

BOARD OF DIRECTORS

As at the date of this announcement, the Board of Directors of HKEx comprises 12 independent non-executive Directors, namely Mr LEE Yeh Kwong, Charles (Chairman), Mr FAN Hung Ling, Henry, Mr FONG Hup, Mr FRESHWATER, Timothy George, Dr KWOK Chi Piu, Bill, Mr LEE Jor Hung, Dannis, Mr LEE Kwan Ho, Vincent Marshall, Mr LEONG Ka Chai, Dr LO Ka Shui, Mr STRICKLAND, John Estmond, Mr WEBB, David Michael, Mr WONG Sai Hung, Oscar, and one executive Director, Mr CHOW Man Yiu, Paul, who is also the Chief Executive.

By Order of the Board
Hong Kong Exchanges and Clearing Limited
LEE Yeh Kwong, Charles
Chairman

Hong Kong, 10 November 2004

This results announcement is published on the Stock Exchange's website (http://www.hkex.com.hk) and the quarterly report will be available from the same website on or before 17 November 2004.

Please also refer to the printed version of this announcement in South China Morning Post on 11 November 2004.